

To: McCabe, Janet[McCabe.Janet@epa.gov]
From: David Marchick
Sent: Thur 8/8/2013 1:45:39 AM
Subject: Fwd: Analysts reports
EPA Provides RFS2 Policy Update - Citi.pdf
ATT00001.htm
Goldman Murti 080613.pdf
ATT00002.htm
RINS080613.pdf
ATT00003.htm
Barclays US Independent Refiners EPA 2014 RIN Requirement Comments Posit....pdf
ATT00004.htm
REFINT080613-131642.pdf
ATT00005.htm

FYI - shared with Bob yesterday.

Sent from my iPad

Subject: Analysts reports

Folks – here are all the research reports from Wall Street. There are likely one or two more out there, but these are all I have received.

Dave

<http://rcr.ml.com/Archive/11302375.pdf?w=erik.young%40pbenergy.com&q=orAQsKVICtLq7!tCwpyuDQ>

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EPA Provides RFS2 Policy Update

Alert: As expected, no major changes for 2013 although agency flexibility looks likely for the 2014 rule...

The US Environmental Protection Agency (EPA) issued its much anticipated final rule for the 2013 Renewable Fuel Standard (RFS2) today. The abrupt timing of the announcement perhaps threw the market for a whirl as RIN prices dropped 18% this morning to \$0.85/gal in response to broker markets and news reports suggesting an imminent EPA release, easing RFS2. But the final content was not significant for 2013 and was kept open-ended for 2014. Overall, the EPA statement was in line with previously published Citi Research notes (see: [Lord of the RINs](#)) that suggest meaningful policy relaxation as more likely for 2014 but with no sizable easing for the 2013 final rule. To be sure, other than the EPA extending the 2013 compliance deadline by four months to the end of June 2014 and the minor adjustment for cellulosic biofuels (which is likely to also be close to zero in 2014), there were no real shifts for 2013.

The final 2013 rule keeps aggregate blending volumes at 16.55-bn gal; adjusting the advanced renewable constituency very modestly by cutting cellulosic biofuels from 14-mn gal to 6-mn gal; the total advanced carve-out still unchanged at 2.75-bn gal and the conventional ethanol requirement kept at 13.8-bn gal. Compliance this year should not be a problem given the carryover of 2.5-bn gal RIN credits that can be drawn down. The EPA appears comfortable with elevated RIN prices persisting as this encourages higher level blending—a stated policy objective. But the statement today should be on the whole modestly bearish RIN prices on the forward outlook given the real potential for RFS2 relaxation next year, with RIN price volatility possibly persisting until further policy clarity is offered.

The EPA is quite likely to show increasing flexibility in issuing new waivers for the 2014 rule. Such temporary 'fixes' in the absence of a legislative amendment can provide RFS2 sustainable breathing room to 2015 while Congress potentially devises an update to the program. The agency has reviewed thousands of comments over the past several months and acknowledges the E10 blend wall issue as tangible and something it would be open to addressing for the 2014 rule.

Policy easing for 2014 is open-ended but the EPA could take several routes. Ongoing partial waivers to reduce components of the advanced carve-out are almost guaranteed (i.e. cellulosic) but the agency could also start curtailing the total renewable fuels requirement in conjunction with this, thereby reducing total blended volumes given E10 saturation. This adjustment also seems to be the most discussed by market participants. However, adjusting the biodiesel (D4) RIN market in ethanol equivalent terms from 1.5x to a higher multiple (i.e. 2.5x) is an accounting gimmick that could also measurably reduce RIN generation costs and aid obligated parties in achieving compliance by 'inflating' RIN production. The EPA clearly favors a move to midlevel blends but the statement today appears to acknowledge that E15 / E85 is a limited release valve and unlikely to provide an immediate solution for a biofuel policy that becomes significantly more binding in 2014.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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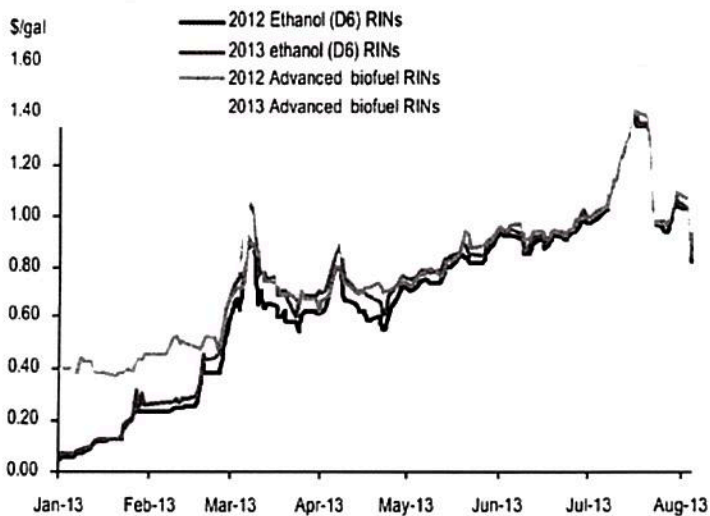
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Figure 1. Renewable Fuel Standards for the 2007 Energy Legislation (EISA) or RFS2*

bn-gal	Corn Based Ethanol	Advanced Renewables	Sum
2011	12.6	1.4	14
2012	13.2	2	15.2
2015	15	5.5	20.5
2016	15	7.3	22.3
2017	15	9	24
2018	15	11	26
2019	15	13	28
2020	15	15	30
2021	15	18	33
2022	15	21	36

Source: EPA, Citi Research. *rounded to nearest single decimal point

Figure 2. Conventional and Advanced RIN prices have surged and converged this year...



Source: Starfuels Inc., Citi Research

Figure 3. Renewable Fuel Equivalence Values

Product	Ethanol Equivalence Value
Conventional Ethanol	1x
Cellulosic biomass ethanol	2.5x
Biodiesel	1.5x
Butanol	1.3x
Non-ester renewable diesel	1.7x
Other renewables (crude linked)	1x

Source: EPA, Citi Research

Appendix A-1

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Americas: Energy: Oil - Refining

Equity Research

First Take: EPA statement appears to recognize RFS limitations

News

The EPA has just released (mid-day August 6, 2013) its annual blending requirements under the Renewable Fuels Standard program (RFS) for 2013. Importantly, the EPA has also stated that it acknowledges that there are constraints in the market's ability to consume renewable fuels at the volumes specified in the Clean Air Act in future years, and stated that the EPA anticipates proposing adjustments to the 2014 volume requirement in the 2014 rule to address the constraints.

RIN issue could moderate for refiners

Our initial conclusion is that the announcement is bullish for merchant refiners, in particular CL-Buy HollyFrontier and Neutral-rated Valero Energy, which appear to have an above-average exposure to the issue. Most other independent refiners we would also see as beneficiaries of the news, including Buy-rated Marathon Petroleum, Western Refining, Alon USA Partners, and Northern Tier Energy as well as Neutral-rated Alon USA Energy, Delek US Holdings, Phillips 66, and Tesoro.

By acknowledging issues with the current RFS mandate in terms of the so-called ethanol "blendwall" (which we think will be reached by 2014) and stating that it intends to make changes to the requirement for 2014, the risk of a sharply rising cost of compliance (i.e., "RINs" prices) for merchant refiners appears to have been significantly reduced. In a nutshell, higher RINs prices were a function of concern that there would not be enough RINs created in 2014 once the blendwall was reached; the EPA appears to have alleviated this risk with today's news.

Given that the EPA did not actually change the 2014 requirement in today's announcement, but instead stated that it intends to do so as part of the 2014 ruling, volatility in RINs pricing could persist so long as uncertainty remains. Still, we see the acknowledgement as positive news for refiners and the removal of what has been an overhang since the March time frame when higher RINs pricing first became apparent to investors.

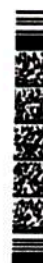
Please see previously published research for additional details on the RFS and RINs pricing.

Reiterate Attractive refining coverage view

We continue to have an Attractive coverage view on the refining sector.

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Disclosure Appendix

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August 6, 2013

Refining & Marketing RINs: A Way Out

This afternoon, the EPA released its 2013 RVO obligations. The EPA lowered the RVO for cellulosic ethanol yet corn ethanol remained unchanged. Importantly, EPA softened its position on 2014. This represents positive rate of change.

What did EPA say? The EPA sets the ethanol blending levels within the statutorily required RFS and, today, the EPA released its 2013 RVO obligations, over 10 months later than required (Nov 31 date). In its 89 page release, the EPA lowered the RVO for cellulosic ethanol from 14 MM gallons to 6MM gallons and held the corn RFS requirement to RFS level. More importantly, the EPA softened its position on 2014 stating: "EPA anticipates that in the 2014 proposed rule, [w]e will propose adjustments to the 2014 volume requirements, including to both the advanced biofuel and total renewable fuel categories [w]e expect that in preparing the 2014 proposed rule, we will estimate the available supply of cellulosic and advanced biofuel, assess the E10 blendwall and current infrastructure and market-based limitations to the consumption of ethanol in gasoline-ethanol blends above E10."

What is the impact? Since late 1Q13, RINs have become a negative focal point for the refining equities and, most recently, was a voiced concern on every refiners earnings call. RIN prices rose from \$.02/gal in 2012 to as high as \$1.47 in mid-July 2013. This is the first indication that EPA (via The White House) fears the potential impact to gasoline prices (highlighted in our report: RFS Breakdown Sooner than Expected, July 23, 2013). This represents a positive rate of change for EPA to ultimately pre-empt the blend-wall and roll-back the "RIN-cost" in 2014, reducing sector overhang. If the RVO relief is not granted, economic runs could occur, spiking gasoline and forcing change. Our \$1/gal 2014 RIN cost estimate is under review.

Not a silver bullet, yet positive rate of change. We still see EPS headwinds; however, the next move is likely supportive with a widening WTI-Brent post COS upgrader restart and Mid-Con production ramp (August).

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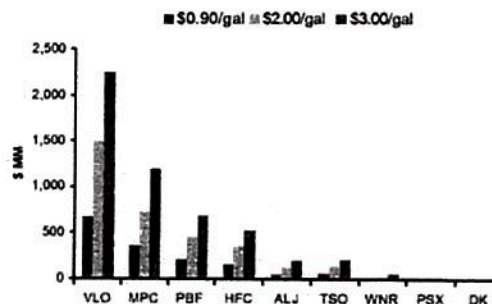
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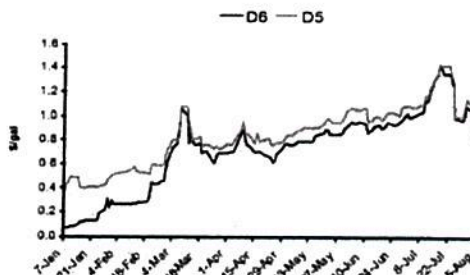
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RIN Costs Were Expected Big Tax to Some Refiners



D6 and D5 Prices down from highs in Anticipation of EPA Action



Source: Bloomberg and Morgan Stanley Research

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RINs: A Way Out

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Specific language in today's release. Exact language from pages 68-69 of 40 CFR Part 80 regarding the *RFS Volume Requirements for 2014* (emphasis added).

As described in the NPRM, we recognize that ethanol will likely continue to predominate the renewable fuel pool in the near future, and that for 2014 the ability of the market to consume ethanol in higher blends such as E85 is constrained as a result of infrastructure and market-related factors. Most stakeholders that submitted comments in response to the NPRM made reference to the impending E10 blendwall, though they differed on how EPA should address it. A number of obligated parties and other stakeholders have communicated to EPA that while the E10 blendwall may be manageable in 2013, in 2014 compliance is expected to become significantly more difficult. **We agree with that assessment.** In 2014, the applicable volume of total renewable fuel set forth in the statute rises to 18.15 billion ethanol-equivalent gallons, of which 14.4 Bn gal would be non-advanced biofuel comprised primarily of corn-ethanol (D6), and 3.75 bill gal would be advanced biofuel. A significant portion of the fuel available to meet the advanced biofuel requirement would also likely be ethanol, including domestically produced cellulosic and advanced ethanol, along with advanced ethanol imported from Brazil. However, the maximum volume of ethanol that could be consumed as E10 in 2014 is projected to be just 13.2 bill gal. **Given the history of the market and relevant constraints, EPA does not currently foresee a scenario in which the market**

could consume enough ethanol sold in blends greater than E10, and/or produce sufficient volumes of non-ethanol biofuels (biodiesel, renewable diesel, biogas, etc.), to meet the volumes of total renewable fuel and advanced biofuel stated in the statute.

Given these challenges, EPA anticipates that in the 2014 proposed rule, we will propose adjustments to the 2014 volume requirements, including to both the advanced biofuel and total renewable fuel categories. We expect that in preparing the 2014 proposed rule, we will estimate the available supply of cellulosic and advanced biofuel, assess the E10 blendwall and current infrastructure and market-based limitations to the consumption of ethanol in gasoline-ethanol blends above E10, and then propose to establish volume requirements that are reasonably attainable in light of these considerations and others as appropriate. EPA believes that the statute provides EPA with the authorities and tools needed to make appropriate adjustments in the national volume requirements to address these challenges. **We are currently evaluating a variety of options and approaches consistent with our statutory authorities for use in establishing RFS requirements for 2014.** We will discuss these options in detail in the forthcoming NPRM for the 2014 standards and expect to utilize the notice and comment process to fully engage the public in consideration of a reasonable path forward that appropriately addresses the blendwall and other constraints.

We received a number of comments suggesting that because EPA was late in issuing these final RFS standards for 2013, and in light of concerns over the blendwall and RIN prices, that the Agency should take action to relieve or reduce burdens associated with RFS compliance in 2013. While we do not believe that it would be appropriate to remove or further reduce the statutory volume obligations for 2013 as some suggested, we do agree with the commenter who suggested that EPA provide additional time for obligated parties to demonstrate compliance with the 2013 standards. Knowledge of the volume requirements for 2014 is crucial to the strategies that obligated parties may implement when purchasing RINs and wet gallons of fuel for compliance with their individual 2013 RVOs. Given this, EPA's view is that delaying the compliance demonstration for the 2013 compliance period would alleviate some of the uncertainty and concerns that obligated parties have

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Refining & Marketing

regarding the tardiness of the final rule and its effect on their decisions regarding RIN acquisition.

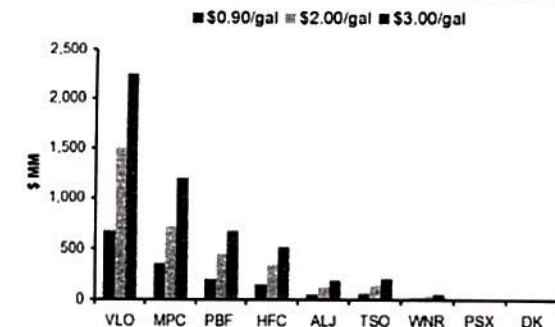
Therefore, we are extending the RFS compliance deadline for the calendar year 2013 RFS standards to June 30, 2014. In addition to providing obligated parties with more time to demonstrate compliance, we believe that this extension will allow obligated parties to implement various purchasing and allocation strategies that help them comply on an individual basis given the tardiness of this final rule. The compliance demonstration deadline extension is for the 2013 compliance year only, and does not extend the compliance demonstration deadline in any subsequent year. Additionally, given the extension of the compliance demonstration deadline for the 2013 compliance period, we are extending the deadline for submitting reports for the attest engagement requirement for the corresponding compliance year until September 30, 2014. The attest engagement deadline extension is likewise for the 2013 compliance year only, and does not extend the deadline in any subsequent year.

What's a RIN worth? What is a RIN worth is almost an existential question. In our view, if the EPA acknowledges the blend-wall in the 2014 RVO, the market would no longer be in the RIN inventory draw-down stage which triggered some of the recent D-6 RIN price spike and drove the Street view that there was no ceiling on RIN prices. There will continue to be RIN transfers from parties who are long RINs to those that are short RINs, which will drive some value, yet one significantly less than \$1/gal RIN, in our view. We assume \$1/gal RIN price in our 2014 estimates that are under review. Further, the EPA extended the period for RIN compliance until June 30, 2014, that, in our view, will alleviate any potential RIN spike in 4Q13 for obligated parties who were short RINs into year (and had to buy compliance during the worst refining quarter of the year).

No silver bullet, yet clearly better. Refiners still face negative EPS risk in 3Q13 and 4Q13; however, reduction in the RIN overhang is a large incremental positive. The next few key events to drive the group higher could be: (1) return of COS upgrader estimated to occur in mid-August adding ~200mbpd of light sweet crude into the mid-con and in conjunction with seasonal mid-con crude growth should widen Brent-WTI as crude is forced back onto rail; and (2) any Hurricane risk or actual outages into peak Hurricane season. We would also expect some negative offset on lower product cracks as RBOB could become subject to imports with a reduction in RIN prices as well as some negative revisions that are reflected in our estimates (lower diffs and lower capture rates).

Exhibit 1

RIN Costs in 2013: Big Tax to Some Refiners

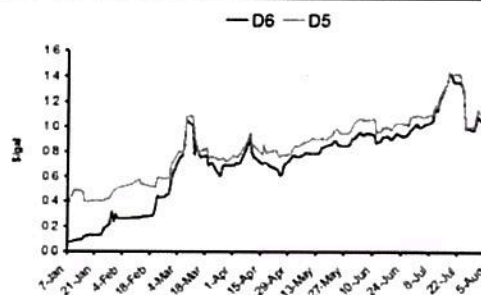


Source: Company Data and Morgan Stanley Research

Impact assessment. The impact of lower RINs is clear net positive for refiners but more so for merchant refiners that sell more into pipe vs. blending themselves. Among our coverage, several companies currently have significantly higher RIN exposure (PBF, VLO and HFC). In the current stage of RFS breakdown, we are witnessing a wealth transfer from refiners that are short RINs to entities that collect more RINs than needed (refiners, marketers, Mid-stream companies). Compliance costs at current RIN price levels (and lower margins and differentials) are significant and today's announcement by EPA is a welcome relief. We currently assume \$1/gal for D6 RINs for 2013 and 2014 analysis, after today's announcement our estimates are under review. We expect higher capture rates on reduced RVO obligations.

Exhibit 2

D6 and D5 Prices down in Anticipation of EPA Action



Source: Bloomberg and Morgan Stanley Research

What is the Renewable Fuels Standard (RFS)? In December 2007, the "Energy Independence and Security Act" was enacted into federal law, which created a second Renewable Fuels Standard ("RFS2"). This standard requires the total volume of renewable transportation fuels (including ethanol and advanced bio-fuels) sold or introduced in the U.S. to reach 16.6Bn gallons in 2013, 18.2Bn gallons in 2014, up to 36Bn gallons by 2022. Every November, the EPA releases the Renewable Volume Obligation (RVO) for the following year, based on a formula taking into account the expected increase in gasoline demand, presented as a percentage of processed volume which all obligated parties (refineries/ blenders) are required to satisfy.

What are RINs? A Renewable Identification Number or RIN is the mechanism to prove compliance with the RFS. RINs (a 38digit serial numbers) are presented to the EPA as evidence of compliance with the RFS mandate. An obligated party (only refiners) must present a volume of RINs equal to the number of gallons in its RVO. RINs are generated upon production of a gallon of ethanol or biofuel and accompany that fuel until it is blended into gasoline at which point the RIN separates and can be stockpiled by the blender to satisfy its RVO or sold on a secondary market to other parties that need to satisfy their RVO. The title owner of ethanol at the truck rack, where blending with gasoline occurs, owns the RIN. The reason RIN prices are spiking is because some refiners are running out of them.

The problem: the RFS. The legislated US Renewable Fuels Standard, enacted in 2007, has an ethanol/bio-fuel requirement that rises each year. In 2007, the standard assumed growing overall US gasoline demand and technology developments able to produce sizable cellulosic ethanol and bio-fuels. As of today, both were wrong. Gasoline demand is significantly lower due to higher unemployment (financial crisis), lower demand and higher fuel efficiencies than assumed in 2007. In late 2013, the legislated RFS requirement will exceed blendable fuel levels, which means federal law will require an outcome that is unattainable. Due to stored credits (estimated at ~2Bn), the legislation will become fully unworkable some point in 2014+ RINs, regardless of the price, will not exist to cover the blending obligations. This also ignores the longer-term ambition to double the renewable fuels by 2022 envisioned in the law.

Exhibit 3

RFS Obligations Increases in the Out Years

	Renewable Fuels Standard (BGY)	Advanced Biofuel (D6)	Renewable Fuels (D6)
2007	4.7		4.7
2008	9.0		9.0
2009	11.1	0.6	10.5
2010	13.0	1.0	12.0
2011	14.0	1.4	12.6
2012	15.2	2.0	13.2
2013	16.6	2.8	13.8
2014	18.2	3.8	14.4
2015	20.5	5.5	15.0
2016	22.3	7.3	15.0
2017	24.0	9.0	15.0
2018	26.0	11.0	15.0
2019	28.0	13.0	15.0
2020	30.0	15.0	15.0
2021	33.0	18.0	15.0
2022	36.0	21.0	15.0

Source: EPA and Morgan Stanley

Exhibit 4

Volumes Used to Determine the Final 2013 Percentage Standard

Cellulosic biofuel	6 mill gal
Biomass-based diesel	1.28 bill gal
Advanced biofuel	2.75 bill gal
Renewable fuel	16.55 bill gal

Source: EPA and Morgan Stanley

Exhibit 5

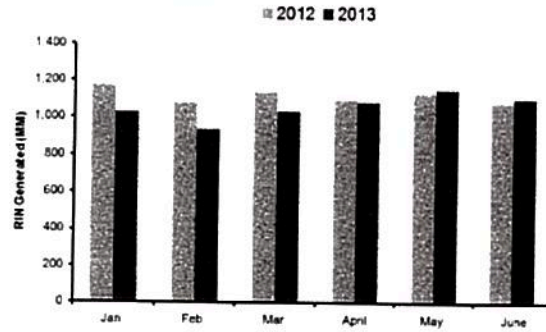
Final Percentage Standards for 2013

Cellulosic biofuel	0.004%
Biomass-based diesel	1.13%
Advanced biofuel	1.62%
Renewable fuel	9.74%

Source: EPA and Morgan Stanley

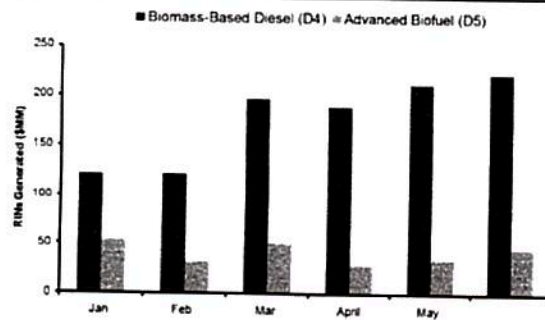
Refiners behind on meeting 2013 RFS obligations. The RFS-2 mandate of 13.8Bn gallons of ethanol be blended into the gasoline pool in 2013. As per latest data available on the EPA website, refiners and blenders have generated close to 6.3Bn D6 RINs in the first 6 months of 2013. At the current run rate, refiners will generate ~12.6 Bn RINs in 2013, falling well short of their target of 13.8Bn ethanol RINs and will depend upon the ~2Bn D6 RIN bank to meet their 2013 RFS obligations.

Exhibit 6
D6 RINs Generated in First 6 Months of '12 and '13



Source: EPA and Morgan Stanley

Exhibit 7
D4 and D5 RINs Generated YTD



Source: EPA and Morgan Stanley

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Marathon Petroleum Corporation (MPC.N)	O (07/08/2011)	\$71.93
PBF Energy Inc (PBF.N)	E (07/08/2013)	\$23
Phillips 66 (PSX.N)	O (09/11/2012)	\$58.41
Tesoro Corp (TSO.N)	E (03/15/2011)	\$55.3
Valero Energy Corporation (VLO.N)	O (09/11/2012)	\$35.09
Western Refining Inc. (WNR.N)	E (02/29/2012)	\$30.62

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* Historical prices are not split adjusted

U.S. Independent Refiners EPA 2014 RIN Requirement Comments; Positive Implications for Refiners

We believe the EPA's comments concerning future obligations will have a positive impact on the independent refiners. While today's final ruling pertains to just 2013 volumetric levels, we believe the EPA's commentary that it will use flexibilities in the RFS statute to reduce both the advanced biofuel and total renewable volumes in the 2014 RFS volume requirement will provide the market with much needed relief given the ongoing concerns of rising RIN costs as a result of the expected RIN shortage next year. The EPA anticipates its final rulemaking for the 2014 RFS standard will be complete by June 30, 2014.

Final Ruling on 2013 RFS Program: Earlier this afternoon, the U.S. EPA issued its final rulemaking on the 2013 RFS program. According to the release, while the final 2013 overall volumes remains unchanged at 16.55 billion gallons of renewable fuels to be blended into the U.S. fuel supply, the EPA has extended its compliance deadline for obligated parties under the 2013 standard by 4 months to June 30, 2014 (please see Figure 4 for the final volume and percentage standard for 2013).

Who Are the Beneficiaries and Losers? We believe the biggest potential beneficiaries will be refiners with the largest exposure to rising RIN costs, which includes PBF, VLO, MPC, HFC, and ALJ. On the other hand, PSX, TSO, DK, and WNR are all relatively balanced for 2013 and will likely see a neutral to slightly positive impact based on today's announcement. Retailers that have benefited from the generation of RIN credits, such as Murphy USA (former retail segment of Murphy Oil), Casey's General Stores (ticker: CASY), and Pantry (ticker: PTRY), will be the primary losers.

What Happens Next? In light of today's announcement, we expect to see RIN prices trend lower in the coming months. We also think some short sellers on refiners will begin to cover their shorts, while the elimination of uncertainty related to RIN should provide more favorable backdrop for long-only investors to revisit the sector. As we have noted previously, we think some investors have lost sight of the long-term shift in North American refiner profitability amid current RIN price and crude differential volatility. Based on the companies' newfound bottom cycle earnings and cash flow power, we believe the sector's minimum fair value could be 70-100% higher than current share price levels.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

INDUSTRY UPDATE

U.S. Independent Refiners
POSITIVE
Unchanged

U.S. Independent Refiners

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FIGURE 1
2Q13 Actual RIN Expense

Company	Expense (\$ mm pre-tax)	\$/Share (after-tax)
ALJ	\$8	\$0.08
DK	N/A	N/A
HFC	\$35-\$45*	\$0.11-\$0.15
MPC	\$60	\$0.12
PBF	\$37	\$0.25
PSX	N/A	N/A
TSO	N/A	N/A
VLO	\$125	\$0.15
WNR	N/A	N/A

Source: Company Data, Barclays Research

Note: ALJ's RIN exposure only reflects exposure from Big Spring Refinery.

* Barclays estimate

FIGURE 2
2013 Ethanol RIN Costs Trend

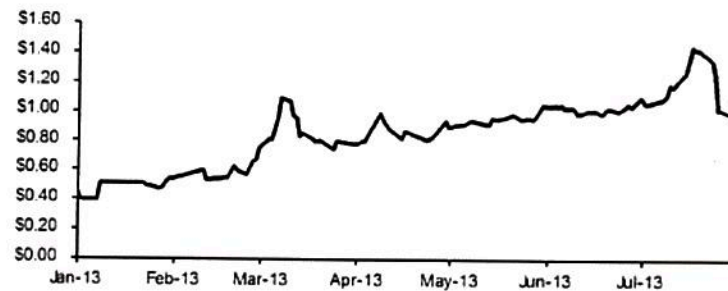
Ethanol RIN Costs
(\$/gallon)



Source: Bloomberg, Barclays Research

FIGURE 3
2013 Biodiesel RIN Cost Trend

Biodiesel RIN
Costs (\$/gallon)



Source: Bloomberg, Barclays Research

FIGURE 4
Final 2013 Standard

	Volumes Used for Final 2013 % Standard	Final % Standards for 2013
Cellulosic Biofuel	6 million gallons	0.004%
Biomass-based Diesel	1.28 billion gallons	1.13%
Other Biofuels	1.46 billion gallons	0.49%
Advanced Biofuels	2.75 billion gallons	1.62%
Ethanol RINs	13.8 billion gallons	8.12%
Renewable Fuel	16.55 billion gallons	9.74%

Source: EPA

Note: All volumes are ethanol-equivalent, except for biomass-based diesel which is actual

FIGURE 5
Renewable Volume Requirement (million gallons)

	Total Requirement	Ethanol RINs	Advanced Biofuels	Biomass-Based Diesel	Cellulosic Biofuels	Other Biofuels
2011	13,950	12,600	1,350	1,200	6	144
2012	15,200	13,200	2,000	1,500	10	490
2013	16,550	13,800*	2,750	1,280	6	1,464
2014	18,150	14,400*	3,750	N/A	N/A	N/A
2015	20,500	15,000*	5,500	N/A	N/A	N/A

Source: EPA

Note: N/As will be determined by the EPA through future rulemakings

*Current 10% blend wall = 13 billion gallons of ethanol

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Materially Mentioned Stocks (Ticker, Date, Price)

Alon USA Energy (ALJ, 05-Aug-2013, USD 13.19), Underweight/Positive, C/J/O
Delek US Holdings Inc. (DK, 05-Aug-2013, USD 30.73), Overweight/Positive, A/C/D/F/J/K/L/M/N/O
HollyFrontier Corp. (HFC, 05-Aug-2013, USD 45.00), Overweight/Positive, C/J
Marathon Petroleum Corp. (MPC, 05-Aug-2013, USD 71.69), Overweight/Positive, A/C/D/J/K/L/M/N
Phillips 66 (PSX, 05-Aug-2013, USD 57.80), Overweight/Positive, D/J/K/L/M/N
Tesoro Corporation (TSO, 05-Aug-2013, USD 56.09), Overweight/Positive, A/C/D/J/K/L/M
Valero Energy (VLO, 05-Aug-2013, USD 35.13), Overweight/Positive, C/D/J/K/L/M/N
Western Refining, Inc. (WNR, 05-Aug-2013, USD 30.99), Overweight/Positive, A/C/D/J/K/L/M

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Valero Energy (VLO)	Western Refining, Inc. (WNR)	

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August 6, 2013

Equity Research



Clear Positive Development For Refiners On The RFS

The EPA Offers Significant Indications Of Flexibility On Renewable Fuels Mandate For 2014:

- **Key Takeaway.** The refining sector is getting a lift today following a release from the EPA that it will take into account ethanol blend wall challenges in 2014 through flexibilities built into the Renewable Fuel Standard. This is much quicker action than what we had expected, but it is clearly a positive development in our opinion nonetheless. This announcement is most beneficial for those refiners with the greatest exposure to renewable identification numbers (RINs) costs. **Thus this news is most positive for HFC, PBF, VLO and ALJ but is a clear positive for the sector and removes a major barrier to investing in the refining sector.**
- **EPA Effectively Saying It Will Deal With the Issues Related to the Mandate.** No specific rule has been issued and we still do not know what blending levels and volume mandates will ultimately be for 2014. However, the EPA makes clear in the Overview portion of its release that the market has reached certain barriers to greater consumption of ethanol, that the EPA has the authority to make adjustments to the mandated volumes of biofuel (including ethanol) and that the EPA anticipates that it will make those adjustments in 2014. All of those points support a much more reasonable approach to the RFS and should support a more normal market for H2 2013 and 2014.
- **Extending Compliance Dates To Mid-2014.** The EPA has also extended the dates for 2013 RFS compliance to mid-2014. In our opinion this will allow the industry greater flexibility for complying with the 2013 mandates and allow the EPA time to better understand all of the variables related to the RFS, ethanol, the blend wall and RINs prices.
- **RINs Costs Decline.** In anticipation of this announcement from the EPA, RINs prices declined approximately 15% to \$0.85. While still elevated as compared to a year ago or even the beginning of 2013, it marks a significant decline from the \$1.00-\$1.40 range that had prevailed since July 1.

Independent Refiners

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To: McCabe, Janet[McCabe.Janet@epa.gov]
Cc: Atkinson, Emily[Atkinson.Emily@epa.gov]; Deirdre Coyle[Deirdre.Coyle@carlyle.com]
From: David Marchick
Sent: Wed 8/7/2013 11:46:40 PM
Subject: Re: Meeting request

That would be great thanks.

From: McCabe, Janet [mailto:McCabe.Janet@epa.gov]
Sent: Wednesday, August 07, 2013 07:21 PM
To: David Marchick
Cc: Atkinson, Emily <Atkinson.Emily@epa.gov>; Deirdre Coyle
Subject: RE: Meeting request

Feedback would be helpful, thanks.

Should Emily and Deirdre talk in the morning?

Janet McCabe
Acting Assistant Administrator
Office of Air and Radiation, USEPA
Room 5406A, 1200 Pennsylvania Avenue NW
Washington, DC 20460
202-564-3206
mccabe.janet@epa.gov

From: David Marchick [mailto:David.Marchick@carlyle.com]
Sent: Wednesday, August 07, 2013 7:19 PM
To: McCabe, Janet
Cc: Atkinson, Emily; Deirdre Coyle
Subject: Re: Meeting request

Thanks you so much. Would Tuesday morning work? We are at the WH at 9. Perhaps 10:30?

Also, I have been feeding Bob feedback from the market. Would you like me to share that with you?

Thanks so much.

Dave

Sent from my iPhone

On Aug 7, 2013, at 7:12 PM, "McCabe, Janet" <McCabe.Janet@epa.gov> wrote:

Mr. Marchick—

Bob Perciasepe forwarded to me your note asking about setting up time for me to meet with you and several others to discuss the RFS. I would be pleased to arrange a meeting, and have copied my assistant Emily Atkinson, who can help with the scheduling. I couldn't tell from what Bob sent me which day you are planning to be in DC, but am remaining optimistic that it is a day I will be here. And if not, we will figure out another time.

I look forward to meeting you.

Janet McCabe
Acting Assistant Administrator
Office of Air and Radiation, USEPA
Room 5406A, 1200 Pennsylvania Avenue NW
Washington, DC 20460
202-564-3206
mccabe.janet@epa.gov

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To: McCabe, Janet[McCabe.Janet@epa.gov]
Cc: Atkinson, Emily[Atkinson.Emily@epa.gov]; Deirdre Coyle[Deirdre.Coyle@carlyle.com]
From: David Marchick
Sent: Wed 8/7/2013 11:18:57 PM
Subject: Re: Meeting request

Thanks you so much. Would Tuesday morning work? We are at the WH at 9. Perhaps 10:30?

Also, I have been feeding Bob feedback from the market. Would you like me to share that with you?

Thanks so much.

Dave

Sent from my iPhone

On Aug 7, 2013, at 7:12 PM, "McCabe, Janet" <McCabe.Janet@epa.gov> wrote:

Mr. Marchick—

Bob Perciasepe forwarded to me your note asking about setting up time for me to meet with you and several others to discuss the RFS. I would be pleased to arrange a meeting, and have copied my assistant Emily Atkinson, who can help with the scheduling. I couldn't tell from what Bob sent me which day you are planning to be in DC, but am remaining optimistic that it is a day I will be here. And if not, we will figure out another time.

I look forward to meeting you.

Janet McCabe
Acting Assistant Administrator
Office of Air and Radiation, USEPA
Room 5406A, 1200 Pennsylvania Avenue NW
Washington, DC 20460
202-564-3206
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